

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
EXTERNAL AFFAIRS COMMITTEE**

**HELD ON
Friday, October 7, 2005
10:00 a.m., MST**

The External Affairs Committee (EAC) of the Arizona State Retirement System (ASRS) met in regular session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, AZ, 85012. Mr. Jaime Gutierrez, Chairperson, called the meeting to order at 10:02 a.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona, 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jaime Gutierrez, Chairperson
 Mr. Steven Zeman, Vice-Chairperson
 Dr. Keith Meredith - teleconferenced
 Mr. Christopher Harris – 10:05 am

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of Minutes of the September 9, 2005, EAC Meeting

Dr. Meredith moved that the External Affairs Committee approve the September 9, 2005 EAC minutes.

Mr. Zeman seconded the motion.

The motion passed unanimously.

- 3. Presentation Discussion and Appropriate Action Regarding Notice of Proposed Rulemaking for R2-8-115, Return of Contributions Upon Termination of Membership by Separation from Service by Other Than Retirement or Death; Payment of Survivor Benefits Upon the Death of a Member.** Mr. Patrick Klein, External Affairs Assistant Director and Ms. Nancy O. Johnson, ASRS Rules Coordinator, provided information on the Notice of Proposed Rulemaking for R2-8-115 that amends the rule to remove the 21 day waiting requirement for return of contributions and makes other technical and clarifying changes as recommended by

the Auditor General. A.R.S. § 38-740 provides for the return of contributions for an ASRS member who leaves ASRS employment other than by retirement or death.

R2-8-115 includes a definition of “terminate employment” that requires a minimum 21-day wait before returning those contributions. In this rulemaking the ASRS is amending the definition of the term, “termination of employment” to remove the arbitrary waiting period, but provide a standard for determining if a member has terminated employment. This revision requires modification to the forms used. The ASRS is also making technical and clarifying changes to the rule.

Mr. Zeman moved that the External Affairs Committee approve Rule R2-8-115 to remove the arbitrary waiting period.

Dr. Meredith seconded the motion.

The motion passed unanimously.

4. **Presentation, Discussion, and Appropriate Action Regarding Possible Legislation for the 2006 Legislative Session Relating to the ASRS.** Mr. Patrick Klein, External Affairs Assistant Director, and Ms. Denisse Gee, Government Relations Officer, presented an update of the status of legislation for the 2006 Legislative Session and public policy issues relating to the business of the ASRS including:

a) **Changes to the Modified DROP options.**

Mr. Harris moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to repeal statutory language that deals with the modified deferred retirement option program.

Mr. Zeman seconded the motion.

The motion passed unanimously.

b) **Modify current investment manager qualifications requirements.**

Mr. Zeman moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to modify the current investment manager qualification requirements, to remove the requirement that an eligible investment manager have at least 3 years of experience handling institutional investments of at least \$250 million dollars.

Mr. Harris seconded the motion.

The motion passed unanimously.

c) **Clarifying language dealing with retirement incentive options.**

Mr. Harris moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to clarify statutory language regarding employer retirement incentive programs.

Mr. Zeman seconded the motion.

The motion passed unanimously.

d) **Changes to the LTD program.**

Mr. Zeman moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to modify statutory language regarding the ASRS long-term disability program, specifically addressing LTD benefit offsets and pre-existing conditions.

Mr. Harris seconded the motion. Mr. Gutierrez voted no, the motion passed. 3:1

e) **Changes to the way employer contributions are refunded to a non-retired member.**

Mr. Harris moved to approve Option 2, as follows:

- **A: Eliminates the ability of a non-retired member who is hired on or after the enactment date of this statutory change to receive any employer contributions when leaving ASRS membership.**
- **B: Allows a non-retired member who was hired before the enactment date of this statutory change to receive employer contributions refunds based on the amount of service time the non-retired member has accrued as of June 30 2007.**

Mr. Zeman seconded the motion. The motion passed unanimously.

Mr. Gutierrez asked that the full Board also be given information on Option 1, at the October 21 Board meeting. Option 1 would eliminate the ability of a non-retired member who is hired on or after the enactment date of this statutory change to receive any employer contributions when leaving ASRS membership. Current ASRS active members would continue to accrue and receive Employer contribution refunds as is currently allowed under statute.

f) **Allows Healthcare Group to bid, if it chooses, on the ASRS retiree healthcare contract.**

Mr. Zeman moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to provide ASRS with the option to use the AHCCCS provider network for retiree healthcare with AHCCCS concurrence.

Mr. Harris seconded the motion. The motion passed unanimously.

g) **Conforming change dealing with interest accrued on survivor benefits.**

Mr. Zeman moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to conform the interest rate accrued on survivor benefits to other rates of interest that the ASRS accrues.

Mr. Harris seconded the motion. The motion passed unanimously.

h) Limiting the pop-up/pop-down benefit.

Mr. Harris moved that the External Affairs Committee recommend to the Board that ASRS staff provide technical and administrative information to the Legislature regarding the financial impact of the current rescinding of optional forms of retirement benefits statutory provisions upon the ASRS trust fund, including any possible legislation that would reduce or eliminate any resultant financial impact.

Mr. Zeman seconded the motion.

The motion passed unanimously.

i) Conforming change dealing with the naming a beneficiary for an ASRS member who has chosen the period certain annuity option.

Mr. Zeman moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to give ASRS the specific statutory authority to allow an ASRS member who has chosen the period certain annuity option to name a beneficiary.

Mr. Harris seconded the motion.

The motion passed unanimously.

j) Conform state statute to IRS final regulations regarding minimum distribution rules to achieve compliance with IRC.

Mr. Harris moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to conform state statute to IRS regulations governing the minimum distribution rules contained in Section 401(a)(9) of the Internal Revenue Code of 1986.

Mr. Zeman seconded the motion.

The motion passed unanimously.

k) Conform state statute with federal law regarding the calculation of “compensation” for pension purposes for an employee who volunteers for or is ordered into active military service.

Mr. Zeman moved that the External Affairs Committee recommend to the Board approval of the public policy initiative to conform state statute to federal law for the purpose of calculating “compensation” for an employee who is ordered into or volunteers for active military service.

Mr. Harris seconded the motion.

The motion passed unanimously.

5. Discussion of the EAC Meeting Schedule for 2006 was tabled until November 4

6. Future EAC Agenda Items

- 1.) The next EAC will be on Friday, November 4, 2005, at 10:00 a.m.
- 2.) Continued discussion of the ASRS bills and other related bills.
- 3.) Discussion of the EAC Meeting Schedule for 2006.
- 4.) Discussion of Rule Overview.

7. Call to the Public

No members of the public addressed the Committee.

8. Adjournment of the ASRS External Affairs Committee

Mr. Gutierrez moved that the External Affairs Committee adjourn.

Dr. Meredith seconded the motion.

The motion passed unanimously.

Mr. Jaime Gutierrez, Chairperson of the EAC adjourned the October 7, 2005 meeting at 11:15 a.m.

Respectfully Submitted by,

Michelle Fink
Committee Secretary

Date

Patrick M. Klein
Assistant Director, External Affairs